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Forest

Regeneration

Income

Fund



1999 Annual Report

Company Profile

PRT is Canada's largest forest nursery company, with 13 nurseries located from British Columbia to eastern Ontario. PRT nurseries have a combined capacity to produce in excess of 130 million seedlings per year, supplying the forest industry with top-quality products and services to meet their reforestation requirements.

Our facilities are located within the geographic areas where our customers operate, providing them with the benefit of local services combined with the resources and experience available through a national network of nurseries.

Since its initial public offering in 1997, PRT's business has grown through acquisition and expansion of new and existing facilities. We recognize that by leading in the consolidation of the Canadian forest nursery industry, our customers benefit from our ability to meet their needs on a national scale, and with a broader scope of services than many independent operators can provide.

Growth in the industry is being driven by trends towards government nursery privatization, outsourcing of nursery operations by industry, and an increasing focus by all stakeholders in the forest industry on responsible forest resource management. PRT is responding to these trends by offering our customers an integrated package of competitively priced, quality products and services to assist in the efficient management of their plantations.



Cover seedling

Sx 410
hybrid spruce
Picea glauca x engelmannii

Occurs where the range of the two species overlap, western Alberta and the interior of British Columbia. Major commercial species in British Columbia.

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Financial Highlights

(in millions of dollars, except per unit amounts)

	Year ended December 31, 1999	Year ended to December 31, 1998
Revenues	\$ 26.7	\$ 22.1
Operating Earnings	7.1	6.2
Net Earnings	4.5	4.0
Per Trust Unit	0.80	0.72
Distributable Cash	5.9	5.7
Per Trust Unit	1.05	1.02
Cash Distributions per Trust Unit ¹	1.05	1.02
Cash Generated from Operations (before net change in non-cash working capital items)	7.1	6.4
Net Additions to Capital Assets, including acquisitions	6.0	5.9
Total Assets	66.4	61.1
Unitholders' Equity	50.0	50.4
Per Trust Unit	8.92	9.00
Price Range per Unit on the Toronto Stock Exchange:		
High	9.90	10.25
Low	8.25	8.00
Closing Price at December 31, 1999	8.75	9.00

¹ Including dividend declared on February 16, 2000 on account of 1999 operations.

1999 Operating Highlights

- Completed expansion and commenced operations at the Armstrong, British Columbia nursery acquired from Weyerhaeuser Canada in 1998.
- Construction of the Dryden, Ontario nursery was completed and the first crops were successfully sown and harvested.
- Commenced expansion of the Prince Albert, Saskatchewan nursery for the 2000 growing season, following announcements about major expansion of the forest industry in the province.
- Commenced expansion at the Beaverlodge, Alberta nursery in anticipation of strong market growth in 2000.
- Made three key acquisitions in eastern Ontario, firmly establishing PRT as a major participant in the Ontario seedling market for 2000.
- Implemented organizational improvements aimed at strengthening the management structure and positioning PRT for continued growth.

Report on Operations

growth & leadership

1999 was an exciting year for PRT. We continued on a path of expanding our presence in the Canadian reforestation marketplace, while strengthening our organization and solidifying our leadership position in the markets in which we operate. In doing so, we have built a solid foundation from which to create value for our customers and our Unitholders.

Our Business and Strategy

PRT is a high volume grower of seedlings for reforestation purposes. In addition, the Company provides a variety of related value-added services. Our purpose is to assist our customers in the establishment of their forest plantations in a reliable and cost-effective manner.

PRT's seedling products are primarily greenhouse grown, although we also grow outdoor or "open compound" crops in certain select climates. Virtually all of the company's production is grown in *Styroblock™ seedling containers, a format which has become the industry standard. While other container types may be used if specifically requested, our experience has shown that Styroblock™ containers provide consistent, cost-effective performance for a wide variety of stock types. Standardization of this technology has given us significant production expertise and a reputation for a quality product.

We operate PRT's business from a network of locally managed nurseries, which are strategically located near our customers' operations. This allows us to work closely with them to better understand their needs and to identify ways to add value to the relationship. Increasingly, customers are looking for suppliers who can not only provide seedlings, but can assist in other areas of their reforestation activities.

* Styroblock™ is a trademark of Beaver Plastics Ltd.



Products and Services

PRT grew in excess of 100 million seedlings in 1999, including pine, spruce, hemlock, cedar, Douglas-fir, and other species in a range of container sizes. In addition, we offer a range of value-added products and services to strengthen our customers' reforestation activities, including:

- Enhanced performance seedling products such as "Nutriplug™" and "Brushbuster™," designed to improve field performance of seedlings under challenging site conditions
- Cold storage of seedlings
- Transportation logistics between PRT locations, and from PRT facilities to planting sites or other designated customer locations
- Seed orchard management and seed processing services
- Native plant production, to ensure species diversity on reforested sites and for site rehabilitation
- Assistance with research and field trials, using the services of a qualified field agrologist
- Bundled "grow and plant" contracts, which provide an efficient "seed to site" solution for our customers in Ontario.

Acquisition and Expansion Program

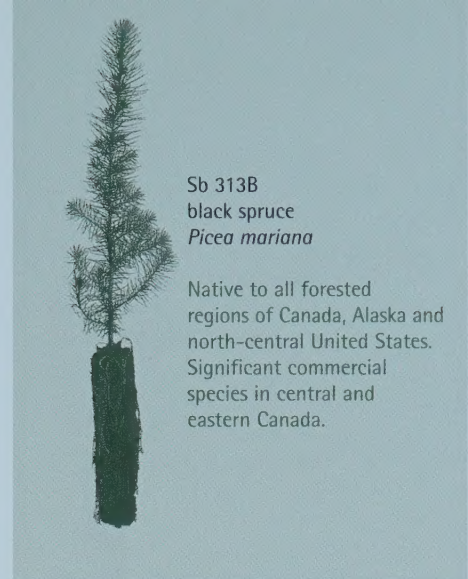
Over the past three years, the Company has aggressively moved to position itself as a market leader in its key markets in Canada. Since its beginnings in British Columbia and subsequent expansion into Alberta, PRT has now broadened its market reach such that 60% of its customer volume comes from outside British Columbia. This diversifies PRT's business risks, and allows us to deal with leading forest companies with a national focus. Major PRT expansions during this period have included:

- Acquisition of the Prince Albert nursery from the Province of Saskatchewan in 1997, followed by expansion of the facility in 1999/2000. This facility was PRT's first entry into Saskatchewan, and is now the largest producer of seedlings in the province.
- Construction of the Dryden, Ontario nursery in 1998/99, followed by expansion to double its size in 1999/2000. This was the Company's first entry into the Ontario marketplace.
- Acquisition of the former Weyerhaeuser Canada nursery facility in Armstrong, British Columbia in 1998. This transaction represents a major long-term partnering relationship with one of the largest forest companies in Canada.
- Acquisition of a reforestation contracting business in Dryden, Ontario. This purchase allowed PRT to offer bundled "grow and plant" service contracts.
- Acquisition of nurseries in Cochrane, North Bay, and Kirkland Lake, Ontario in 1999. This acquisition solidified PRT's presence in the Ontario market, and together with our Dryden nursery, positioned PRT as one of the largest suppliers of seedlings in the province. The facilities in North Bay and Kirkland Lake are being consolidated at Kirkland Lake to provide improved economies of scale.

Once PRT establishes a strategic footprint in a new market, we actively look for ways to grow organically and expand our base. The success of this formula has resulted in PRT becoming the single largest forest nursery company in Canada. We will continue to study opportunities to grow our company within existing markets and into new ones.

Organizational Strengthening

Certain measures were taken in 1999 to improve the company's organizational structure and to better position the company for growth. These included bolstering management within certain nurseries, development of a regional management structure, and implementation of a formal succession planning process. A training centre was established, and training programs in marketing skills and information systems were initiated for employees from all regions. Within regions, we have established a peer review and best practices evaluation framework, to encourage continuous improvement and innovation in operating practices.



Sb 313B
black spruce
Picea mariana

Native to all forested regions of Canada, Alaska and north-central United States. Significant commercial species in central and eastern Canada.

Integration of Facilities

The appointment of regional managers is a key step in ensuring our growth is well managed, and that new facilities are successfully integrated into PRT. We continuously look for opportunities to share overheads and facilities, without compromising local service and autonomy, which are critical aspects of PRT's success.

In some areas, such as in the Okanagan region of British Columbia and in eastern Ontario, nurseries are in close proximity to one another and we are able to pool resources and talents to operate them more efficiently. In other locations, we establish onsite management to ensure we are able to best serve our local customers.

PRT's diversified geographic profile creates another benefit for our customers—risk management. Within our network of facilities, we are able to optimize the growing location for each product, and allow orders to be split between sites for risk management purposes.



Fdi 615
Interior Douglas-fir
Pseudotsuga menziesii
var. *glauca*

Occurs in the southern interior of British Columbia and south through the United States. Regionally important, high-quality commercial species.



Within nurseries, computer controlled environmental management systems are installed to ensure optimum growing conditions are maintained at all times. These systems monitor conditions such as temperature and humidity, and will alert staff if these fall outside acceptable limits so that corrective actions can be taken.

The company completed testing of all of its information systems in 1999 for Y2K readiness. No significant problems were identified and, to date, no problems have been experienced. PRT will continue to monitor systems for Y2K compliance throughout the year.

Environment

PRT made significant progress with implementation of an Environmental Management System (EMS) during 1999. Action plans developed as a result of October 1998 environmental audits at three nurseries were implemented, and training needs identified during the audits are being addressed on an ongoing basis. Action plans for the three nurseries audited during October 1999 are under development. The EMS has been compiled into a binder for ease of use, and these binders have been distributed to all nurseries. An annual review of the EMS will be conducted, and new information will be used to improve the system.

Outlook

During 1999 we saw marked improvement in the operating performance of our forest industry customers. This was largely the result of stronger commodity prices, as well as the effect of operating efficiencies being achieved through business restructuring in the industry. As these companies continue to merge, acquire, reduce costs, and focus on their core businesses, PRT is presented with an opportunity. As an integrated, value-added supplier in a fragmented supply chain, PRT is well positioned to help our customers perform their reforestation work more effectively. No other forest nursery company in Canada is able to match our breadth of operations, management depth or collective experience. In the coming year, we will continue to apply these resources to create value for our customers, and increased returns for our Unitholders.

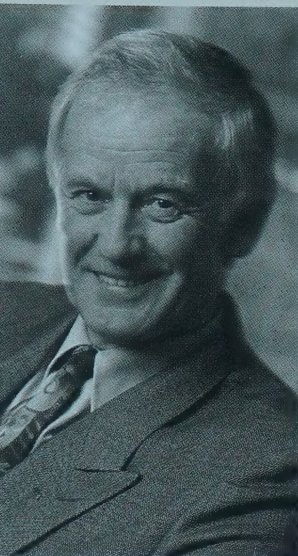
Although PRT nurseries operate locally, they share the resources of the full organization. Information is shared across a wide-area network, and operating procedures, policies and practices have been established for all facilities. Nursery management meets regularly to plan activities and share knowledge.

Information Systems

PRT's wide area network hosts a variety of sophisticated business management tools. Revenue forecasting and work planning applications allow PRT managers to anticipate market demand, and plan physical and financial resources prior to each growing season. A custom integrated contract management system tracks the status of each customer's orders, and provides up-to-date feedback on crop performance. This information can be accessed by PRT managers anywhere on our network, allowing local managers to monitor orders for their customers even if they are being grown at other PRT facilities. Sophisticated financial systems are in place, allowing local managers to monitor operating performance, while facilitating efficient roll-up of consolidated results.



Report to Unitholders



Evert Van Eerden
President & CEO
Pacific Regeneration
Technologies Inc.

We are pleased to present to you the third annual report of the PRT Forest Regeneration Income Fund (the "Fund").

During 1999, the Fund's operating subsidiary, Pacific Regeneration Technologies Inc. (PRT), continued to provide growth and leadership in its key areas of business. The Company grew strategically through internal expansion, acquisitions and management improvements.

The Company completed and operated nursery projects initiated in 1998 at Dryden, Ontario and at Armstrong, British Columbia. Late in the year, PRT acquired three nurseries and a cold storage facility in eastern Ontario, extending PRT's market reach to the Quebec border. These additions meet our objective of geographically broadening PRT's market base and production capabilities. The Company saw positive market growth in all of its markets for 2000. As a result, several expansion projects have been initiated at existing nurseries. These production increases are expected to yield growth in revenue and distributable cash flow in 2000.

Consolidated net earnings rose to \$4.5 million (\$0.80 per Unit), up from \$4.0 million (\$0.72 per Unit) in 1998. Distributable cash flow increased to \$5.9 million (\$1.05 per Unit), up from \$5.7 million (\$1.02 per Unit) the previous year.

Strong 1999 sales, with revenues up 21% (to \$26.7 million) over 1998, were fueled by a 17% increase in the number of seedling blocks (multi-cavity seedling containers) sown. The increase in seedling volume reflected the added capacity of the recently completed Armstrong and Dryden nursery projects. Revenues were also strengthened by increased open compound capacity, by the resumption of the yew plantation management agreement at Campbell River, British Columbia and through a reforestation contracting pilot project in Ontario designed to provide an integrated seedling production and planting (grow and plant) service.

Countering these positive revenue results, the Company experienced an increase in the costs of production in 1999 to 54% of revenues, up from 52% in 1998. The

unusually cloudy weather in early 1999 in some regions affected certain crop yields, and utility costs were impacted by higher natural gas prices. In addition, PRT Dryden experienced higher than average production costs, as the nursery worked toward full capacity.

Key changes were undertaken within the PRT organization to strengthen management and prepare it to handle planned growth. A regional nursery management structure was implemented, management within certain nurseries was bolstered and a formal succession planning process was implemented. In addition, a training centre and training programs were established in all regions, while our ongoing peer review and best practices evaluation framework continued to encourage improvement and innovation in each of the Company's key operating areas.

Nursery administration was maintained at 15% of revenues, consistent with 1998. The Company sold a former nursery site located near Chilliwack, British Columbia, generating net proceeds of \$873,000. These funds will be reinvested in new capital projects in 2000.

Completion and full operation of new facilities at Dryden, Ontario and at Armstrong, British Columbia, together with the integration of the recently acquired and amalgamated nurseries at Cochrane and Kirkland Lake in eastern Ontario, are expected to boost revenues in 2000. Additional capacity from upcoming expansion at Beaverlodge, Alberta, Prince Albert, Saskatchewan, and at three locations in British Columbia are expected to be fully committed in 2000, meeting the growth targets set for the year. After absorbing short-term start-up costs, this expansion, coupled with organizational improvements, is expected to generate improved returns for Unitholders.

We are optimistic about the performance of our principal client group, the Canadian forest industry, for the coming year. As their prospects continue to improve, PRT is positioned to better serve them and to capitalize on new opportunities as they develop in the years ahead.

On behalf of the Trustees

Colin A.C. Dobell
Trustee

Evert Van Eerden
President & CEO
Pacific Regeneration Technologies Inc.

Fund Structure and Governance

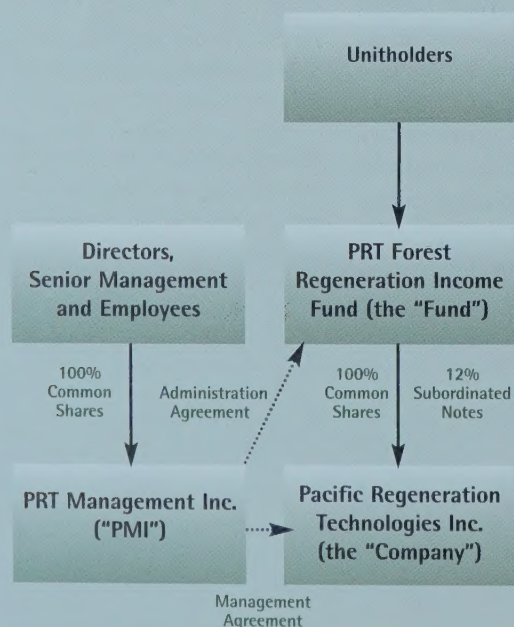
The PRT Forest Regeneration Income Fund (the "Fund") is an open-ended, single-purpose trust, created under the laws of the Province of British Columbia, on May 14, 1997 to own all the common shares and subordinated notes of Pacific Regeneration Technologies Inc. (the "Company"). The Fund is restricted to investing in securities of the Company, making distributions to the Trust Unitholders and matters incidental thereto.

Management

Under a Management Agreement, PRT Management Inc. ("PMI") provides to the Company management and administration services and the services of the President, Vice-President, Finance and Administration and the Vice-President and General Manager. For management services, PMI is entitled to receive a fee based upon reimbursement of its internal cost to provide these services. In addition, PMI may receive incentive fees which are earned when cash distributions to Unitholders exceed certain defined levels.

Under an Administration Agreement, PMI provides administrative services to the Fund. No fee is payable under the Administration Agreement. The shares of PMI are owned by directors, officers and employees of PMI and PRT, or their affiliates.

The structure is illustrated below.

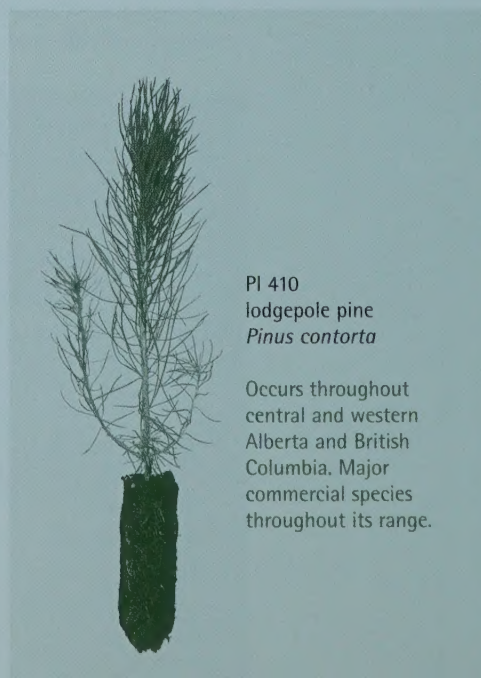


The Fund continues for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on May 14, 1997. The Fund can also be terminated prior to expiry of the term by a special resolution passed by the Trust Unitholders or in the event the Fund ceases to own any securities of the Company.

Governance

The following description of the Fund's corporate governance practices is provided as required by the Toronto Stock Exchange ("TSE"), with reference to guidelines adopted by the TSE in 1995 (the "Guidelines").

The Declaration of Trust establishes a Board of Trustees to be comprised of not fewer than three nor more than five Trustees who are to be appointed annually at the annual general meeting of the Unitholders. At present, there are three Trustees, each of whom is unrelated to the Fund based on the definition contained in the Guidelines.



PI 410
lodgepole pine
Pinus contorta

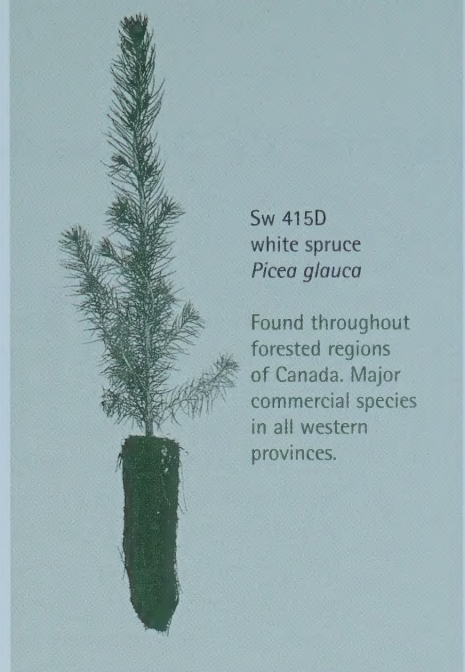
Occurs throughout central and western Alberta and British Columbia. Major commercial species throughout its range.

Pursuant to a Governance Agreement between the Fund, the Company, and PMI, the number of Directors of the Company is fixed at five. Of the five, three are individuals approved by vote of the Unitholders at the annual general meeting of Unitholders and two are nominees of PMI.

The Trustees are responsible for, among other things, acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of the Company, maintaining records and providing reports to the Trust Unitholders, supervising the activities and managing the affairs of the Fund, and declaring distributions from the Fund to the Unitholders.

The Fund has an Audit Committee comprised of the Trustees. The Audit Committee is responsible for reviewing significant accounting, reporting and internal control matters, reviewing all published quarterly and annual financial statements and recommending their approval to the Trustees, and assessing the performance of the Fund's external auditors.

Communication with Unitholders on matters relating to the Fund is primarily the responsibility of the Chairman of the Board of Trustees.



Sw 415D
white spruce
Picea glauca

Found throughout
forested regions
of Canada. Major
commercial species
in all western
provinces.

Distributions and Taxation

The Fund will generally distribute interest received from the Company on a quarterly basis, and dividends received on an annual basis, less the Fund's administrative expenses and amounts which may be paid in connection with any cash redemptions of Units.

The Fund is a Unit Trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the Unitholders. Generally, all taxable income of the Fund will be allocated to Unitholders. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders.

The foregoing is a brief summary of only some of the taxation considerations relating to the Fund and the holding of Units and is not intended, in any way, to be complete nor to provide any legal or tax advice to Unitholders. Unitholders and prospective Unitholders should consult their own tax advisors.



Management's Discussion and Analysis

The consolidated financial statements presented in this report are for the PRT Forest Regeneration Income Fund ("the Fund"). The Fund holds all of the common shares and \$41 million of 12% subordinated notes issued by Pacific Regeneration Technologies Inc. ("PRT"). The Fund's activities are restricted to holding these securities, receiving income from them, and making distributions of such income to the Trust Unitholders. PRT generates its income by operating a network of reforestation nurseries, and is the largest container grown forest seedling nursery company in North America.

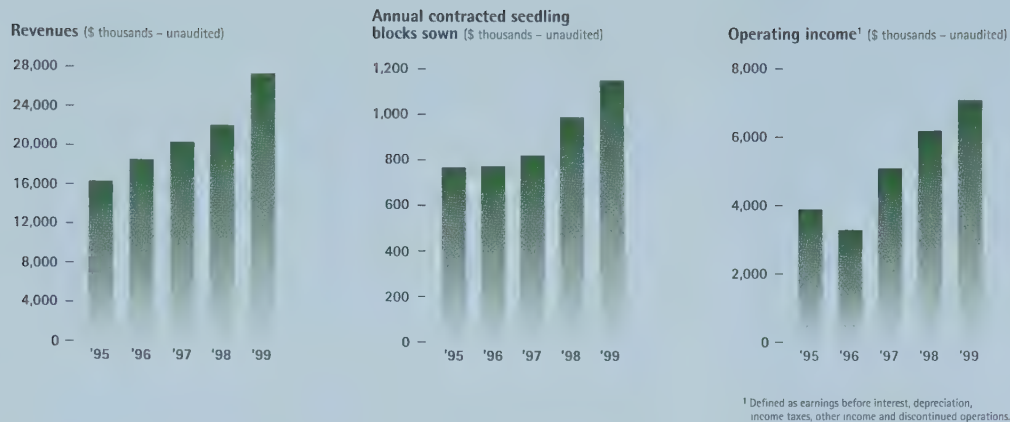
During the year, PRT continued its growth program, completing and operating new nursery projects initiated in 1998, as well as entering into several new expansionary projects for 2000. Nurseries in Dryden, Ontario and Armstrong, British Columbia were completed and went into production during the year. In addition, late in the year PRT acquired three nurseries and a cold storage facility in eastern Ontario, extending PRT's market reach to the Quebec border. These three nurseries will be consolidated into two, in order to achieve better economies of scale, and will go into production in 2000. The Company anticipates growth in all of its markets for 2000 and, as a result, initiated several expansion projects in its existing nurseries. As a consequence, revenues and distributable cash flow are expected to continue to grow in 2000.

Operating Results

Net earnings rose to \$4.5 million (\$0.80 per Unit) in 1999 from \$4.0 million (\$0.72 per Unit) in the prior year. Distributable cash flow increased to \$5.9 million (\$1.05 per Unit), as compared to \$5.7 million (\$1.02 per Unit) in 1998.

Revenues increased by \$4.6 million, or 21% to \$26.7 million in 1999. This increase was fueled by a 17% increase in the number of seedling blocks sown, as well as growth in revenue from other services. Block volumes increased due to the additional capacity brought on-line in 1999 on completion of the Dryden and Armstrong nursery projects. In addition, open compound capacity was increased to accommodate additional seedling demand. Seedling prices remained relatively flat in 1999. Other service revenues increased due to the resumption of yew plantation management services at Campbell River, British Columbia, and as a result of commencing reforestation contracting trials in Ontario designed to promote an integrated seedling production and planting ("grow and plant") service. PRT will continue to test this business strategy in 2000 as a way of bundling services to increase nursery volumes and operating earnings, while adding value for our customers.





Costs of production increased to 54% of revenues as compared to 52% in 1998. This increase resulted from higher than average production costs at the Dryden nursery, poor weather patterns, increased utility costs, and the effect of an increase in certain lower margin service activities. The decision to construct a green-field facility in Dryden meant higher costs in the short term, as we establish operations and build volume and market share. However, as a result of strong market acceptance, volume in this nursery is expected to double in 2000. As volumes increase, we expect production costs will decline as a percentage of sales and approach normal nursery averages. Unusually cool and cloudy weather in the early part of the 1999 growing season affected crop yields in some regions. Utility costs were impacted by higher natural gas prices in 1999.

Nursery administration was maintained at 15% of revenues, consistent with the prior year. Total costs increased due to the introduction of new nurseries in Dryden and Armstrong, as well as costs associated with strengthening our management team to better position the company for growth. We expect this average to be maintained in 2000.

Fund administration declined by \$68,000 over the prior year due to the effect of certain one-time costs in 1998, and the impact of internalizing work previously outsourced. In accordance with the terms of its management agreement, PRT Management received an increase in its fee to compensate for increasing costs resulting from the growth of PRT's operations since 1997. No incentive fees were payable to PRT Management in 1999 under its incentive agreement, and total management fee costs remained unchanged as a percentage of revenue at 3.7%. Management fees are not expected to increase in 2000, while incentive fees will become payable if distributions exceed \$1.10 per unit.

Earnings before interest, taxes, depreciation, amortization and income from asset sales increased by \$882,000 over the same period last year, as a result of increased volumes in 1999. The amount of this increase was offset somewhat by higher production costs as noted above.

Interest expense increased by \$276,000 due to increased borrowings to finance the Company's capital expansion projects in 1999. Interest rates increased only marginally during the year, and remained at historically attractive levels. The Company expects to

continue to finance growth utilizing this facility while its leverage ratio and borrowing costs remain low. Accordingly, with further expansion anticipated, this expense is expected to increase in 2000.

During the year, the company sold a former nursery site located in Chilliwack, British Columbia. The sale, which generated net cash proceeds of \$873,000, resulted in a gain of \$570,000. The proceeds generated by this sale have been

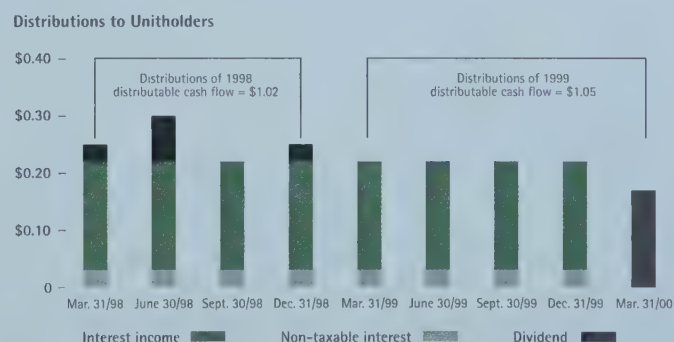
excluded from the calculation of distributable cash flow as a non-operating item, and will be reinvested in new capital projects in 2000.

Including the gain on sale of capital assets, pre-tax income increased by nearly \$1 million over 1998.

Cash Flow

The Fund achieved distributable cash flow of \$5.9 million (\$1.05 per Unit) in 1999, as compared to \$5.7 million (\$1.02 per Unit) in 1998. The increase in distributable cash is attributable to contribution from the various expansion projects initiated over the past two years, but the amount of the increase was moderated by the higher production costs noted above. Distributable cash flow is calculated for this purpose as earnings before depreciation, amortization, deferred income taxes, and gains or losses on asset sales, reduced by principal repayments on long-term debt, sustaining capital expenditures made in the period, and after allowing for reasonable reserves for working capital and capital expenditures.

The Fund's policy is to distribute, on a quarterly basis, amounts received as interest from PRT, after deducting Fund administration costs and the net cost of trust unit redemptions, if any. On or before March 31st of each year, the fund declares an additional distribution of any dividend income received from the Company on account of the operations of the prior year. During fiscal 1999, total distributions declared from the fund were \$0.88 per Unit, as compared to \$1.02 in the same period last year. However, an additional dividend of \$0.17 per Unit was declared on February 16, 2000 related to 1999 operations, bringing the total distributions on account of the 1999 year to \$1.05 per Unit, an increase of \$0.03 per Unit from 1998.



Cash generated from operating activities, before changes in non-cash working capital items, totaled \$7.1 million in 1999, an increase of \$751,000 over the prior year. This improvement is attributable to the growth in operations in 1999 brought about by the expansion into Dryden and Armstrong.

Cash expenditures for capital assets and acquisitions during the year were as follows:

	1999	1998
Sustaining capital	\$ 275,664	\$ 227,752
Seedling containers	993,529	749,325
Acquisitions and earnings enhancing projects	5,627,290	4,949,815
Total	\$ 6,896,483	\$ 5,926,892

Sustaining capital expenditures increased with the growth in the business in 1999. Although the increase was less than expected, this benefit was offset somewhat by higher repairs and maintenance expenditures, which are included in operating costs. Management expects sustaining capital expenditures will approach 2% of revenues as a long-term average. Sustaining capital expenditures are financed from cash flow in the year incurred.

Seedling container expenditures increased by \$244,204 over the prior year. This increase is directly attributable to the increase in seedling blocks sown which, in turn, resulted from the Company's expansion initiatives. Seedling container replacement is funded from operating cash flow, as depreciation on these assets is treated like a cash expense in costs of production, and is not added back in determining distributable cash flow. To the extent overall container capacity is expanded, the additional containers may be financed from the Company's term debt facility.

The Company undertook a number of earnings enhancing capital projects in 1999. These included:

- Completion of the Dryden, Ontario greenfield nursery construction project which was started in 1998.
- Completion of the greenhouse and open compound expansion project at the Armstrong, British Columbia nursery, which was acquired from Weyerhaeuser Canada in 1998.
- Purchase of nursery automation equipment for the Harrop, British Columbia nursery.

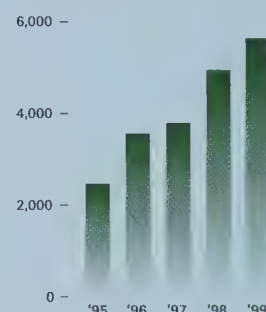
- Acquisition of a reforestation contracting business (PRT Frontier) in Dryden, Ontario, to facilitate marketing of bundled "grow and plant" service contracts.
- Acquisition of a nursery in Cochrane, Ontario (PRT Birchill), plus associated cold storage facilities.
- Acquisition of a nursery and cold storage facility near Kirkland Lake, Ontario (PRT North Gro).
- Purchase of the nursery assets of a forest seedling nursery in North Bay, Ontario. These facilities will be relocated to PRT North Gro in 2000 in order to achieve improved economies of scale.
- Commencement of an expansion project at the Prince Albert, Saskatchewan nursery, to add an additional 65,000 square feet of capacity for production in 2000.
- Commencement of phase II expansion at PRT Dryden, doubling the size of the facility by adding another eight greenhouses for production in 2000.
- Commenced expansion of the Beaverlodge, Alberta nursery, adding another six greenhouses for production in 2000.

Of these projects, only the first three materially affected operating results in 1999. The remaining projects will come on stream in 2000, and are expected to contribute to further earnings growth.

Financing for the above projects will come primarily from the Company's amortizing term debt facility, as well as from the cash generated by the sale of the former nursery site in Chilliwack, British Columbia.

The Fund follows a disciplined approach to capital management. All capital projects are subject to careful management review and screening. Stringent return on investment criteria are established with reference to the Fund's cost of capital, to ensure earnings enhancing capital projects are accretive to Unitholders. Projects are also reviewed after completion to measure achievement of targeted returns.

Earnings enhancing capital expenditures (\$ thousands – unaudited)



Financial Position, Cash Resources and Liquidity

The Fund's working capital position at December 31, 1999 was \$1.1 million, a decline of \$1.1 million from the same period last year. This decline was temporary, and resulted from interim funding of earnings enhancing capital and acquisitions from the Company's operating line. Significant expenditures occurred late in 1999 relative to acquisitions in Ontario. Early in 2000, these funds were drawn from the term debt facility, reducing the operating line and replenishing working capital. Working capital was also reduced at year end by the higher amount of current term debt amortization scheduled for repayment in 2000.

Short-term bank indebtedness increased by \$1.3 million compared to 1998, primarily due to temporary funding of earnings enhancing capital expenditures noted above. This operating line, which is mainly utilized to finance short-term changes in working capital, revolves during the fiscal year.

The Company has available up to \$7.7 million under a revolving operating loan facility to fund working capital and general corporate requirements. At December 31, 1999, approximately \$4.7 million was still available to be drawn under this facility. In addition, PRT has a revolving term facility of up to \$15.0 million to finance acquisitions and other earnings enhancing capital expenditures. Drawings under the facility may be converted to non-revolving term loans with a 10-year amortization. Principal repayments under this facility are deducted in determining distributable cash in any year. At December 31, 1999, \$8.5 million has been drawn and converted to term, while \$6.5 million is still available for future capital programs. Interest rates on the term facility are generally fixed using interest rate swaps for the full amortization term.

Both of the above facilities are available in either US or Canadian dollars. Interest costs are based on Canadian prime or Bankers Acceptance rates or, in the case of US drawings, are based on US Base or Libor rates.

Risks and Uncertainties

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows much of its crops in climate-controlled greenhouses in diverse locations, and trained growing personnel carefully monitor the growing conditions. In addition, the Company maintains insurance against certain crop losses.

The business of PRT is highly dependent on the forest industry in Canada. While the Company is not financially dependent on any one customer, regional markets may be impacted by changes in global markets and government regulations. In recent years, management has taken steps to diversify PRT's operations outside of British Columbia, such that at the present time, approximately 60% of the Company's volume is derived from outside the province.



The Company intends to use term debt financing to fund earnings enhancing capital expenditures in the present low interest rate environment. Interest rate risk is managed by fixing term debt rates for the life of the obligation using interest rate swaps. Working capital loans are short term in nature and represent a relatively small portion of total borrowings. Accordingly, management does not hedge interest rate risk on this debt.

The Company maintains an extensive network of computerized management information and greenhouse climate control and monitoring systems. The Company has determined that all of its key computerized systems are year 2000 compliant, and is not aware of any material Y2K related problems with its customers or suppliers.

Outlook

The Company's acquisition and expansion program will firmly position PRT as a leader in all its major markets, to capitalize on the new opportunities which undoubtedly will unfold in the coming years. Expansions at Dryden and Armstrong in 1998 will have a positive contribution to earnings in 2000. Recent acquisitions promise to add to volume growth, and after absorbing normal start-up costs are expected to deliver further distributable cash gains to Unitholders in the coming year.

As a supplier in a renewable resource industry, PRT contributes positively to the environment. The Company has excellent growth prospects, and will continue its policy of maintaining and enhancing the underlying earnings and asset base. PRT will continuously seek a rational balance between funding expansion, and cash distributions to Unitholders, with a view to maintaining a strong financial position.

Financial Statements

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of PRT Forest Regeneration Income Fund (the "Fund") and all the information in this annual report pertaining to the Fund have been prepared by PRT Management Inc. ("PRT Management") and management of Pacific Regeneration Technologies Inc. ("PRT") and have been approved by the Board of Trustees of the Fund.

The financial statements have been prepared by PRT Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. PRT Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. PRT Management has prepared the financial information of the Fund presented elsewhere in the annual report and has ensured that it is consistent with the financial statements of the Company.

PRT Management maintains on behalf of the Fund systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Trustees of the Fund are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements of the Fund. The Trustees carry out this responsibility in this capacity as its Audit Committee.

The Audit Committee is comprised of the three Trustees, all of who are independent and unrelated to the Fund. The Committee meets periodically with PRT Management and management of PRT as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee also considers, for approval by the Unitholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements of the Fund have been audited by PricewaterhouseCoopers, the external auditors, in accordance with generally accepted auditing standards on behalf of the Unitholders. PricewaterhouseCoopers has full and free access to the Audit Committee.

On behalf of the Trustees



Colin A.C. Dobell
Trustee



Evert Van Eerden
President & CEO
Pacific Regeneration Technologies Inc.

March 13, 2000

Auditors' Report

To the Unitholders of PRT Forest Regeneration Income Fund

We have audited the consolidated balance sheets of **PRT Forest Regeneration Income Fund** (the "Fund") as at December 31, 1999 and 1998 and the consolidated statements of earnings and distributable cash, Unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Price Waterhouse Coopers LLP

Chartered Accountants

Vancouver, Canada

February 11, 2000

(except for note 8, which is as of February 16, 2000)

Consolidated Balance Sheets

As at December 31, 1999 and 1998

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	1999	1998
Assets		
Current assets		
Accounts receivable	\$ 6,509,522	\$ 5,922,274
Inventories	1,273,690	870,293
Prepaid expenses	202,600	182,665
Unbilled revenue	1,348,417	790,685
	9,334,229	7,765,917
Capital assets (note 4)	29,075,648	24,572,382
Goodwill	27,991,944	28,723,712
	\$ 66,401,821	\$ 61,062,011
Liabilities and Unitholders' Equity		
Current liabilities		
Operating line (note 5)	\$ 2,989,593	\$ 1,641,149
Accounts payable and accrued liabilities	3,235,891	2,194,976
Distribution payable to Unitholders (note 8)	1,240,752	1,401,428
Current portion of long-term debt (note 6)	732,264	317,636
	8,198,500	5,555,189
Long-term debt (note 6)	7,337,601	4,649,864
Deferred income taxes	836,473	413,815
	16,372,574	10,618,868
Unitholders' Equity (note 7)	50,029,247	50,443,143
	\$ 66,401,821	\$ 61,062,011

Approved by the Trustees



Colin A.C. Dobell

Trustee



David C. Davenport

Trustee

Consolidated Statements of Earnings and Distributable Cash

For the years ended December 31, 1999 and 1998

	1999	1998
Revenue	\$ 26,713,558	\$ 22,097,279
Expenses		
Costs of production	14,419,429	11,506,567
Nursery administration	4,025,850	3,311,998
Fund administration	178,492	246,394
Management fee (note 10)	1,000,000	825,000
	19,623,771	15,889,959
Earnings before the following	7,089,787	6,207,320
Interest expense	(480,707)	(204,720)
Depreciation	(1,509,753)	(1,285,551)
Amortization of goodwill	(746,768)	(745,512)
Gain on sale of capital assets	576,785	-
Earnings before income taxes	4,929,344	3,971,537
Provision for (recovery of) income taxes (note 9)	420,911	(68,771)
Net earnings for the year	4,508,433	4,040,308
Net earnings adjustments		
Depreciation	1,509,753	1,285,551
Amortization of goodwill	746,768	745,512
Deferred income taxes	354,659	(86,073)
Repayment of long-term debt	(372,634)	(32,500)
Sustaining capital expenditures	(275,664)	(227,752)
Gain on sale of capital assets	(576,785)	-
Distributable cash	\$ 5,894,530	\$ 5,725,046
Net earnings per Trust Unit	\$ 0.80	\$ 0.72
Distributable cash per Trust Unit	\$ 1.05	\$ 1.02

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Consolidated Statements of Unitholders' Equity

For the years ended December 31, 1999 and 1998

	1999	1998
Balance – Beginning of year	\$ 50,443,143	\$ 52,128,158
Net earnings for the year	4,508,433	4,040,308
Distributions declared during the year	(4,922,329)	(5,725,323)
Balance – End of year	\$ 50,029,247	\$ 50,443,143

Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998

		1999	1998
PRT Forest Regeneration Income Fund 1999 Annual Report	Cash flows from operating activities		
	Distributable cash	\$ 5,894,530	\$ 5,725,046
	Repayment of long-term debt	372,634	32,500
	Sustaining capital expenditures	275,664	227,752
	Seedling container depreciation which is included in costs of production	587,035	393,136
		7,129,863	6,378,434
	Net change in non-cash working capital items	(497,748)	(190,875)
		6,632,115	6,187,559
	Cash flows from financing activities		
	Distributions paid to Unitholders	(5,083,005)	(5,725,323)
	Net proceeds of long-term debt	3,102,365	4,967,500
		(1,980,640)	(757,823)
	Cash flows from investing activities		
	Acquisitions - net of cash acquired <i>(note 3)</i>	(2,593,755)	-
	Purchase of capital assets	(4,302,728)	(5,926,892)
	Proceeds on sale of capital assets	896,564	8,707
		(5,999,919)	(5,918,185)
	Increase in operating line	(1,348,444)	(488,449)
	Operating line - beginning of year	(1,641,149)	(1,152,700)
	Operating line - end of year	\$ (2,989,593)	\$ (1,641,149)
	Supplemental information		
	Interest paid	\$ 564,387	\$ 304,243
	Income taxes paid	\$ 82,252	\$ 502

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

1. Organization, acquisition and nature of operations

PRT Forest Regeneration Income Fund (the "Fund") is an open-ended single purpose trust, created under the laws of British Columbia by a Declaration of Trust dated May 14, 1997. The Fund is the largest producer of container-grown forest seedlings in North America. The Fund grows its seedlings at eight nurseries in British Columbia, three in Ontario, and one in each of Alberta and Saskatchewan.

The Fund was created to acquire 100% of the issued and outstanding shares of Pacific Regeneration Employees Holdings Inc. ("PREH"). The acquisition was financed by a public issue of Trust Units of the Fund (note 7).

Effective July 11, 1997, the Fund acquired PREH. The acquisition was accounted for using the purchase method, whereby the value of the consideration given was allocated to the assets and liabilities of PREH on the basis of the estimated fair values thereof. The results of PREH have been included in the accounts of the Fund from the date of acquisition.

Immediately subsequent to the acquisition, the Fund sold its interest in PREH to its wholly owned subsidiary (Acquisitionco) and Acquisitionco, an inactive holding company, PREH and certain of its subsidiaries were amalgamated to form a new company called Pacific Regeneration Technologies Inc. ("PRT" or the "Company"). As a result of the amalgamation and subsequent subscriptions, the Fund holds 100% of the common shares of PRT and \$41,242,741 of 12% unsecured subordinated notes ("Notes").

2. Significant accounting policies

Basis of financial statements

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, PRT and its other wholly owned subsidiary companies. Inter-group transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts is recognized as a percentage of the contract price, based on the percentage of total direct expenses incurred to total budgeted direct costs. Total revenue is recognized when seedling crops reach substantial completion, which is defined as meeting all contracted growth specifications. Any excess of revenues recorded using this percentage completion method over amounts billed is recorded as unbilled revenue.

Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered.

Inventories

Inventories of supplies are recorded at the lower of cost and replacement cost. Native plants and seed inventories are carried at the lower of cost and net realizable value.

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Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

2. Significant accounting policies (continued)

Capital assets and depreciation

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates which reflect the estimated useful lives of the assets as follows:

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Buildings	40 years
Greenhouses	25 years
Equipment	3-15 years
Seedling containers	5 years

Depreciation related to the seedling containers is included in costs of production in the consolidated statements of earnings and distributable cash.

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Goodwill

Goodwill related to the acquisitions of PREH (note 1) and Frontier (note 3) is amortized using the straight-line method over its estimated useful life of 40 years and five years, respectively. The Trustees review the valuation and amortization of goodwill on an ongoing basis, taking into consideration any events and circumstances that might have impaired the value. Goodwill is written down when declines in value are considered to be other than temporary based upon forecast future cash flows.

Distributions to Unitholders

The amount of cash to be distributed annually to Unitholders is made with reference to distributable cash, which is calculated as net earnings adjusted for depreciation, amortization, deferred income taxes, repayment of long-term debt, sustaining capital expenditures and gains on sale of capital assets. In the event earnings enhancing capital expenditures are not financed with long-term debt or additional equity, distributable cash may be reduced by these expenditures as well.

Distributions to Unitholders are made on a quarterly basis. Effective the first quarter of 1999, the Fund adopted a policy of making a cash distribution each quarter equal to interest charged to PRT by the Fund on the Notes plus interest charged on any other inter-group indebtedness less estimated Fund administration costs. In addition to the quarterly distributions, an additional distribution ("Fifth Distribution") will be made coincident with the first quarter distribution of the following year based on the actual distributable cash for the year, less reserves, if any, considered appropriate by the Board of Directors of PRT and the Trustees of the Fund.

Income taxes

The Fund is a Unit Trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the Unitholders. During 1999 and 1998, all taxable income of the Fund has been allocated to the Unitholders. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders.

PRT and the Fund's other subsidiaries follow the tax allocation method of accounting for income taxes, whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and taxes currently payable or recoverable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes.

The income tax provision/recovery recorded in these consolidated financial statements is based on the consolidated tax position of the Fund and its subsidiaries.

Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

3. Acquisitions

During the year ended December 31, 1999, PRT completed the following acquisitions:

- a) the assets of a reforestation contracting business ("Frontier") in Dryden, Ontario.
- b) 100% of the outstanding shares of Birchill Forest Renewal Center Inc. ("Birchill"), a reforestation nursery located in Cochrane, Ontario.
- c) 100% of the outstanding shares of 884030 Ontario Limited and its wholly owned subsidiary, North Gro Development Ltd. ("North Gro"), a reforestation nursery located near Kirkland Lake, Ontario.
- d) specific assets of a reforestation nursery in North Bay, Ontario, that will be relocated to the North Gro nursery location.

The combined net assets acquired at fair market value:

Cash	\$ 261,554
Non-cash net working capital	777,132
Capital assets	2,617,105
Goodwill	15,000
Deferred income taxes	(67,999)
	\$ 3,602,792

Total consideration

Cash paid during the year	\$ 2,855,309
Cash consideration to be paid in 2000	747,483
	\$ 3,602,792

These acquisitions have been accounted for using the purchase method of accounting, and, accordingly, these consolidated financial statements include the results of operations from the date of acquisition. Birchill and North Gro were both consolidated into PRT at December 31, 1999.

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Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

4. Capital assets

PRT		1999		1998
		Cost	Accumulated depreciation	Net
Forest	Land	\$ 2,655,212	\$ -	\$ 2,655,212
Regeneration	Nursery growing facilities	19,385,293	1,506,208	17,879,085
Income	Equipment	8,538,760	1,703,010	6,835,750
Fund	Seedling containers	2,882,154	1,176,553	1,705,601
		\$ 33,461,419	\$ 4,385,771	\$ 29,075,648
				\$ 24,572,382

The following summarizes the amounts charged to earnings in respect of depreciation:

Annual Report		1999	1998
	Seedling container depreciation included in the costs of production	\$ 587,035	\$ 393,136
	Other capital asset depreciation	1,509,753	1,285,551
	Total depreciation	\$ 2,096,788	\$ 1,678,687

5. Operating line

PRT has a revolving operating facility available in the amount of \$7.7 million to fund the company's working capital, general corporate requirements, and to provide temporary financing for earnings enhancing capital expenditures prior to conversion to term debt (note 6). At December 31, 1999, the company had drawn \$2,989,593 (1998 - \$1,641,149) from the operating facility bearing interest at prime (1998 - 6.01%). A first floating charge over the company's assets is provided as security.

6. Long-term debt

PRT has a term debt facility available in the amount of \$15,000,000, or the equivalent in US dollars, to fund earnings enhancing capital expenditures and acquisitions. Under the credit facility, PRT may borrow by way of prime and/or base rate drawings, bankers' acceptance drawings, and/or LIBOR drawings.

On or before the annual revolvment date, PRT may, at its option, extend the facility for one year or elect to convert all or a portion of the principal amounts owing into a non-revolving term loan. As at December 31, 1999, the following amounts have been drawn and converted into non-revolving term loans:

Quarterly principal installments	Date of first installments	Maturity date	Fixed interest rate %	1999	1998
\$ 33,379 ⁽¹⁾	June 28, 1999	June 26, 2008	5.69	\$ 1,134,865	\$ 1,267,500
92,500	September 30, 1999	June 30, 2009	5.595	3,515,000	3,700,000
27,500	September 30, 1999	June 30, 2009	5.62	1,045,000	-
59,375	September 29, 2000	June 30, 2010	6.75	2,375,000	-
				8,069,865	4,967,500
Less: Current portion				732,264	317,636
				\$ 7,337,601	\$ 4,649,864

⁽¹⁾ Initial quarterly payments of \$32,500 were made on September 26, 1998 and March 26, 1999.

Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

6. Long-term debt (continued)

PRT has entered into interest rate swap agreements to fix the interest rates on its term loans. The rates noted in the above table represent the fixed interest rates resulting from the swap agreements.

In addition to the fixed interest rates, a stamping fee is incurred for each term loan at a rate ranging between 0.825% and 1.5% per annum, depending on PRT's total indebtedness to EBITDA ratio.

A first floating charge over the company's assets is provided as security.

The principal repayments required in each of the next five years are as follows:

Year ending December 31,

2000	\$ 732,264
2001	851,014
2002	851,014
2003	851,014
2004	851,014

7. Unitholders' capital

The Declaration of Trust provides that an unlimited number of Trust Units may be created and issued. Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. All Trust Units of the Fund are of the same class with equal rights and privileges. Each Trust Unit is transferable, and entitles the holder thereof to participate equally in allocations and distributions and to one vote for each whole Trust Unit held at all meetings of Unitholders. Unitholders are not subject to future calls or assessments.

Trust Units are redeemable at the holder's option at amounts related to market prices at the time, subject to a maximum of \$75,000 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a *pro rata* number of PRT common shares and Notes.

Units outstanding as at December 31 are:

	Number of Units	1999	1998
Initial public issue of Units at \$10 each	5,605,714	\$ 56,057,140	\$ 56,057,140
Less: Issue expenses	-	3,002,597	3,002,597
Balance - December 31	5,605,714	\$ 53,054,543	\$ 53,054,543

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Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

8. Distributions to Unitholders

During the year ended December 31, 1999, the Fund declared distributions to the Unitholders of \$4,922,329 or \$0.88 per Unit (1998 – \$5,725,323 or \$1.02 per Unit). The amounts and record dates of these distributions were:

	1999		1998	
	Amount	Per Unit	Amount	Per Unit
March 31	\$ 1,213,635	\$ 0.22	\$ 1,401,428	\$ 0.25
June 30	1,227,190	0.22	1,681,714	0.30
September 30	1,240,752	0.22	1,240,753	0.22
December 31	1,240,752	0.22	1,401,428	0.25
1999	\$ 4,922,329	\$ 0.88	\$ 5,725,323	\$ 1.02

The distribution of \$1,240,752 with a record date of December 31, 1999 (December 31, 1998 – \$1,401,428) was accrued at year end and paid in January of the following year.

On February 16, 2000, the Fund's Trustees declared a Fifth Distribution for 1999 of \$963,671 or \$0.17 per Unit which will be paid coincident with the first quarter distribution for 2000. As a result, cash distributions in respect of 1999 total \$5,886,000 or \$1.05 per Unit.

The costs of issuing Trust Units incurred by the Fund of \$3,002,597 are deductible for income tax purposes on a straight-line basis over a five-year period. The Fund can designate these deductions as a non-taxable distribution of amounts to Unitholders. The distributions declared in 1999 have been allocated as follows for income tax purposes:

	Total	Per Unit		Total
		Taxable	Non-taxable	
Total distribution	\$ 4,922,329	\$ 4,321,809	\$ 600,520	\$ 0.88

As at December 31, 1999, \$1,516,928 of issue costs were available for future designation as non-taxable distributions.

9. Income taxes

The consolidated income tax provision (recovery) has been determined as follows:

	1999	1998
Income tax expense computed at statutory rates	\$ 2,248,767	\$ 1,811,815
Permanent differences	(1,894,108)	(1,897,888)
Large corporations tax	66,252	17,302
	\$ 420,911	\$ (68,771)

The consolidated income tax provision (recovery) is comprised of the following:

	1999	1998
Current income taxes	\$ 66,252	\$ 17,302
Deferred income taxes	354,659	(86,073)
	\$ 420,911	\$ (68,771)

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Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

9. Income taxes (continued)

Expiry of non-capital loss carryforwards in subsidiary companies is as follows:

Year ended December 31,	
2000	\$ -
2001	-
2002	-
2003	1,169
2004	491,562
2005	1,549
2006	91,551
	\$ 585,831

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10. Administration and Management Agreements

Administration Agreement

The Fund has entered into an Administration Agreement with PRT Management Inc. ("PRT Management"), a company owned by certain of the former shareholders of PREH. The Agreement provides that PRT Management will provide or arrange for the provision of administration services to the Fund. PRT Management is entitled to reimbursement of out-of-pocket expenses for providing these services but will not earn a fee. The Agreement has a 20-year term and can be terminated by the Fund in certain circumstances.

Management Agreement

PRT has entered into a Management Agreement with PRT Management. The Agreement provides that PRT Management will provide management and administration services and strategic advice to PRT and provide individuals to serve as President, Vice-President, Finance and Administration, and Vice-President/ General Manager. The initial term of the Agreement is 20 years, and it is renewable thereafter for successive five-year terms unless PRT gives notice of non-renewal at least 12 months before the end of the relevant term. The Management Agreement may be terminated by PRT or PRT Management in certain circumstances. As compensation for its internal costs and expenses of providing these services, including salaries and wages, PRT Management earns a fee of \$1,000,000 (1998 - \$825,000) per annum, plus reimbursement of certain extraordinary out-of-pocket expenses. In addition, as an incentive to PRT Management to enhance the profitability of PRT and cash distributions to Unitholders of the Fund, PRT Management is entitled to earn incentive fees which will be payable annually when the per Unit cash distributions to Unitholders generated from the operations of PRT exceed certain defined levels.

During the year, PRT Management earned a fee of \$1,000,000 (1998 - \$825,000) under the Management Agreement. No incentive fees were earned by PRT Management during the year (1998 - \$nil).

Notes to Consolidated Financial Statements (continued)

December 31, 1999 and 1998

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11. Commitments

PRT has operating lease commitments for certain nursery growing facilities.

Future minimum payments over the next five years are as follows:

Year ending December 31,	
2000	\$ 157,659
2001	132,412
2002	132,412
2003	132,412
2004	132,412

12. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Fund, including those related to customers, suppliers, or other third parties, have been fully resolved.

13. Related party transactions

PRT provides seedling cultivation services at market rates to a company partially owned by PRT Management. During the year ended December 31, 1999, PRT charged \$103,167 (1998 - \$nil) for providing these services.

Also see *note 10*.

14. Financial instruments

Fair value

The fair values of accounts receivable, operating line, accounts payable and accrued liabilities and distribution payable to Unitholders approximate their carrying values given the short-term maturity of these instruments.

At December 31, 1999, the fair value of term debt was \$7,823,000. The fair value has been determined by discounting future payments of interest on the principal at estimated rates that would be available to PRT at year end.

Fund Information

Trustees

David C. Davenport
*Partner, Davis & Company
Law Firm*

Colin A.C. Dobell
*President, C. Dobell Inc.
Financial Consulting Firm*

Allan D. Laird
*President, A.D. Laird Consulting Ltd.
Management Consulting Firm*



*Back row (standing) L to R: John Kitchen, David C. Davenport and Evert Van Eerden
Front row (seated) L to R: Robert A. Miller, Colin A.C. Dobell and Allan D. Laird*

Annual Meeting

The annual meeting of Unitholders will be held at 9 am, May 16, 2000 at the offices of Davis & Company, 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia

Company Information

Directors

David C. Davenport
*Partner, Davis & Company
Law Firm*

Colin A.C. Dobell
*President, C. Dobell Inc.
Financial Consulting Firm*

Allan D. Laird
*President, A.D. Laird Consulting Ltd.
Management Consulting Firm*

Evert Van Eerden

*President,
PRT*

Robert A. Miller

*Vice President, Finance,
PRT*

Officers

Evert Van Eerden

*President,
PRT*

Robert A. Miller

*Vice President, Finance and Secretary,
PRT*

John Kitchen

*Vice President and General Manager,
PRT*

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Registrar and Transfer Agent

Montreal Trust Company of Canada
Vancouver, Calgary, Toronto and Montreal

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol

PRT.UN





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